



IMPLEMENTATION DIALOGUE: CAPACITY BUILDING SEMINAR ON URBAN POLICIES IN KAZAKHSTAN

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6-7 December 2018

Astana, Kazakhstan
Nazarbayev University

SEMINAR PROCEEDINGS



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Introduction

Objectives

The Seminar on Urban Policy in Kazakhstan took place on 6-7 December 2018 in Astana. It was organised in coordination with the Ministry of National Economy and in collaboration with the World Bank. The seminar is part of the OECD implementation dialogues in Kazakhstan. The objective is to share expertise and best practices on how Kazakh officials across levels of government can implement key policy recommendations contained in the Territorial Review and Urban Policy Review of Kazakhstan across four proposed themes: i) regional competitiveness, ii) urban policy, iii) subnational territorial indicators, and iv) principles for public investment. The Seminar also served as a platform to present the findings and conclusions of the World Bank report on housing affordability in Kazakhstan.

Background

The *OECD Urban Policy Review of Kazakhstan* highlights that, while the country is modernising, its urban centres still show a number of weaknesses that need to be addressed if they are to achieve their full potential as the main engines of economic growth. As urbanisation progresses, the country's economic performance will be more closely linked to the functioning of its cities and its urban governance system. The review suggests that Kazakhstan needs to invest in the quality of its urbanisation if it is to achieve national development objectives. Urbanisation is a necessary, but not sufficient, condition for economic development. Developing an attractive and well-managed system of large and medium-sized cities is thus of particular importance for Kazakhstan. This requires an urban development framework that clearly formulates policy direction, concepts and strategies for urban and spatial development, and a comprehensive land-use planning system.

Audience

The audience included the OECD team, international experts from OECD countries, representatives of the Ministry of National Economy, and Kazakhstan's city and regional governments. The speakers from national and local governments in Kazakhstan reported on the progress made and shared some difficulties found in the implementation of the roadmap when adopting the recommendations of the OECD Urban Policy Review of Kazakhstan. The seminar offered participants the opportunity to hear how other countries such as Poland and France have dealt with challenges associated with the newly introduced urban policy reforms. International speakers presented practical lessons in implementing housing (Singapore) and land use reforms (Amsterdam and Prague).

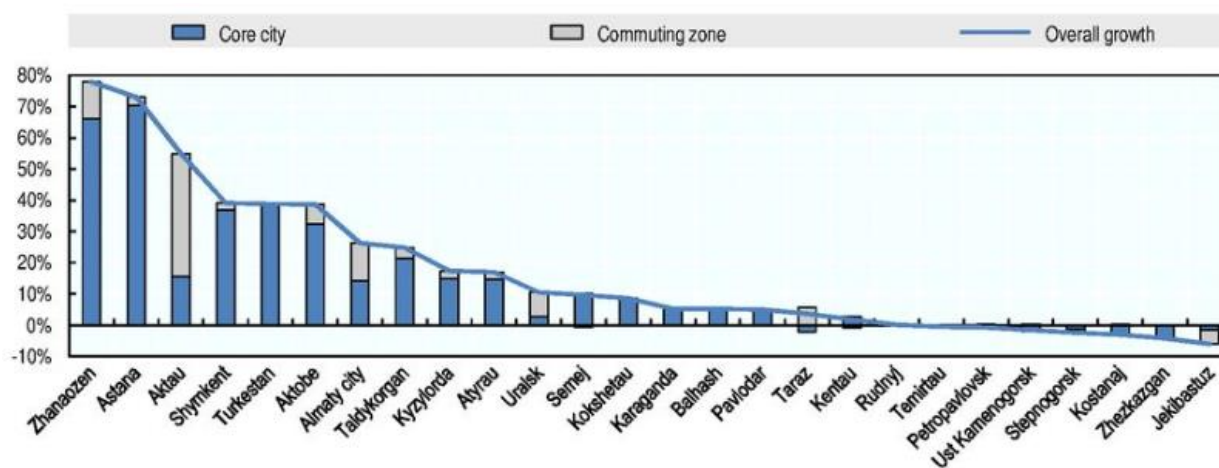
Opening Session

The seminar started with welcome speeches from the **Vice Minister of the Ministry of National Economy (MNE) Mr. Aibatyr Zhumagulov**, a representative of the OECD Secretariat Mr. Oscar Huerta Melchor, and the Country Manager of the World Bank Mr. Ato Brown. Mr. Oscar Huerta Melchor informed participants about the recently signed *Memorandum of Understanding* that extends cooperation between the OECD and the MNE until 2020. The cooperation includes continuation of urban policy study in the form of implementation dialogue. The objective is to understand which direction Kazakhstan is going and how the OECD can assist in achieving the recommended policy objectives.

The Vice Minister emphasized the importance of expanding collaboration with the OECD and the enactment of key recommendations included in the OECD Urban Policy Review. The country's objective is to reach a high level of living standards and become one of the top 30 developed countries of the world. The OECD countries' experience is useful for the establishment of transparent governance, improvement of the investment climate, and transition to sustainable economic growth. **Mr. Ato Brown** from the World Bank drew participants' attention to the speed of urbanisation in Kazakhstan and its related economic growth, stating that the Almaty city GDP is equal to the GDP of Georgia. There is a growing regional disparity and a need for balanced development. Cities can be used as drivers of economic development, but that requires certain institutional efforts aiming to diversify urban economies and prepare cities for the future.

Figure 1. Growth of Kazakhstan's FUAs (1999-2009)

Share of core and commuting zones in overall population growth



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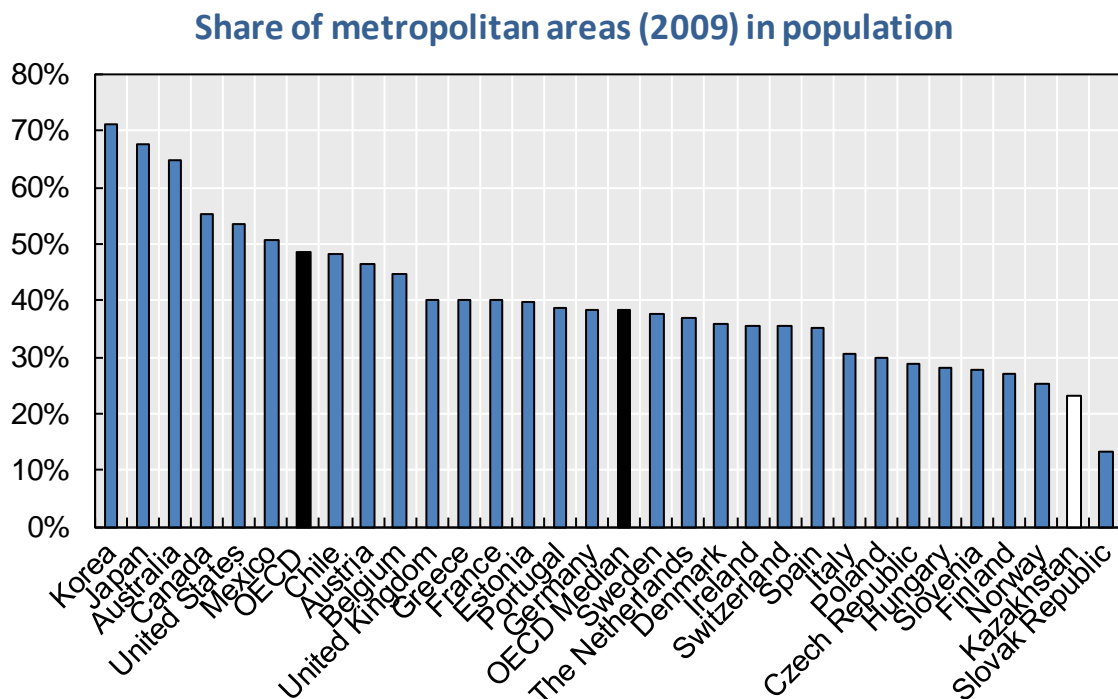
Source: OECD (2017), OECD Urban Policy Reviews: Kazakhstan, OECD Urban Policy Reviews, OECD Publishing, Paris, <https://doi.org/10.1787/9789264268852-en>.

Session 1: Structuring a National Urban Policy Framework

Working towards more dynamic urban policies in Kazakhstan

Mr. Oscar Huerta Melchor, Project Manager and Policy Advisor on Public Governance and Urban Development at the OECD Centre for Entrepreneurship, SMEs, Regions and Cities, presented the OECD assessment and recommendations included in the Urban Policy Review. Kazakhstan is the country with the low population density, with 7 people per square km (2018) and a small number of large cities. However, Kazakhstan is the most urbanized among Central Asian countries (57.6 % in 2018), aiming to increase the urbanization level to 70 % (Strategy 2050). After 25 years of independence, cities still struggle with the transition to a market economy, and the legacy of the Soviet's past continues to influence the way cities are planned and managed. According to the OECD assessment, 56% of the country's population lives and works in 26 functional urban areas (FUA) mainly comprised of small and medium towns while 23% of people reside in the cities of Astana, Almaty, and Shymkent. Almaty is the only polycentric FUA that includes the town of Kaskelen.

Figure 2. Kazakhstan's urbanisation comparable to OECD levels, with a very low share of metropolitan areas



Source: OECD (2017), OECD Urban Policy Reviews: Kazakhstan, OECD Urban Policy Reviews, OECD Publishing, Paris, <https://doi.org/10.1787/9789264268852-en>.

The city growth in Kazakhstan takes place not only due to migration but also due to the extension of city borders and administrative reclassification of the population. Cities

experience a high level of air pollution and traffic congestion due to the popular use of personal cars. Public transport does not operate efficiently, restricting urban mobility. The land is allocated for housing without infrastructure provided. Public utility networks need to be modernized. Approximately 80% of lines are old resulting in high losses in transmission. The tariffs are low and subsidized by the national government. For example, the price of heating in Almaty is only EUR 5. Municipal companies responsible for energy supply experience a shortage of budget for proper maintenance, modernization, and extending networks. There is an overall deficit of social and rental housing for city residents, including recent urban migrants. Low-income residents fail to receive access to affordable housing. The rental market remains a part of the informal economy, leaving tenants without legal protection and constraining labour mobility. The city's adjustment for migrants is not considered in an economic development strategy. On the contrary, in some cases, the compulsory registration of population serves as a certain restriction for newcomers to get access to urban services.

There is a need for the National Urban Policy Framework to be aligned with a new urban agenda such as the one adopted during the UN-Habitat III. All relevant ministries should pay attention to the cities' roles in national economic development and work closely to coordinate urban development both horizontally and vertically. One way to get better coordination of urban development on the national level of government is to create a special ministry such as the former Ministry of Regional Development. It is suggested that being over-focused on Astana's growth should be avoided and instead promote balanced development of all other urban areas (26 FUA). The data collection requires considerable improvement.

If Kazakhstan wants to use cities for economic growth, there is a need for gradual decentralization based on the well-developed strategy. There is a need for better connection between transport, land use, and infrastructure. The current system of public management and policymaking do not allow the establishment of proper linkage between land use management and transport. The lack of strategic land use planning appears to be the main cause of many urban development problems such as traffic congestions and mismatch between supply and demand in the housing sector. Cities need more financial sources to pay for local expenses. The current trend of the delegation of responsibilities should be enhanced by decentralization of revenue generation. Access to direct management of locally collected taxes will give cities room to maneuver towards economically efficient development.

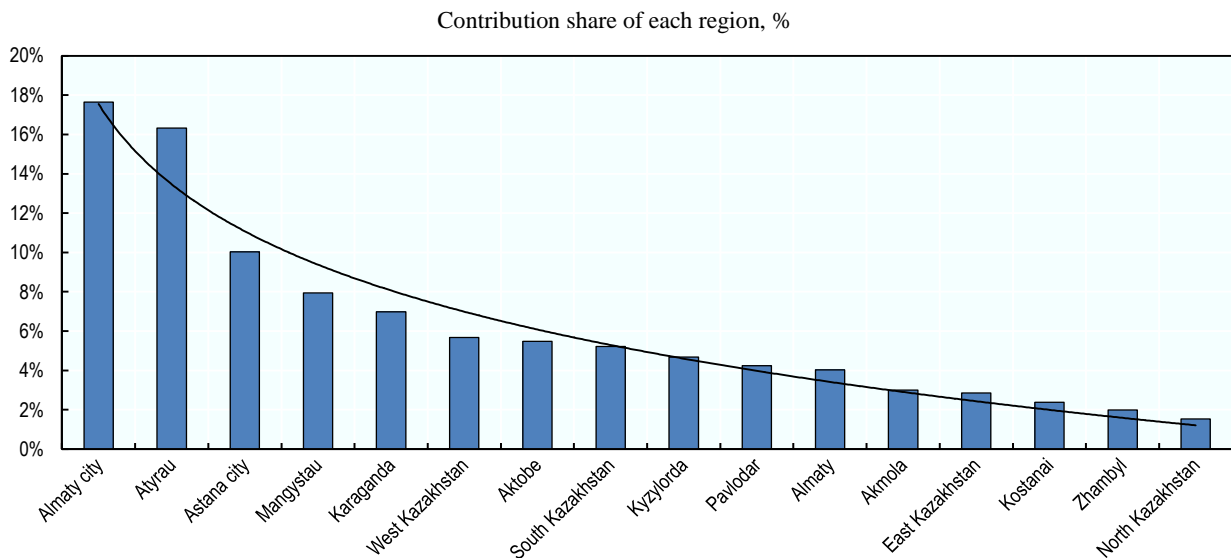
Decentralization should go together with the professionalization of the workforce, including the improvement of urban planning capacities. Strategic workforce planning is important in improving skills and job matches by establishing logical linkages between planned policy change and required human capital for implementation of policy goals. This includes answering key questions such as: What does the country want to do? How much staff with which competencies are required? and Where would such staff be found? As international practice shows, to ensure adequate investment in urban development, it is crucial to introduce participatory practice in urban planning. However, to force participation of civil society in urban planning, it is important to develop local institutional capacity in order to work with people. There is a need to supply local actors with special competencies and skills as well as introduce the right mechanisms to incentivize people to participate in urban planning. Public engagement requires the development of the strategic approach and learning from other countries' experiences.

Kazakhstan's Perspective on Urban Challenges and Opportunities – *The Implementation Roadmap*

Mr. Aibatyr Zhumagulov, Vice Minister of the Ministry of National Economy, made a speech about Kazakhstan's perspective on urban challenges and opportunities and shared the progress related to the development of implementation roadmap. The roadmap on the implementation of the OECD recommendations integrated 51 suggested changes that were approved by the Protocol of the Council for Cooperation with the OECD chaired by Prime Minister Mr. Sagyntaev, dated September 7, 2017. The process of reflecting on the OECD's recommendation has started. The practice of urban planning is being improved, the modernization of the land use planning system is continuing, and active work is being done to ensure housing affordability as well as the effective management of public utilities and infrastructure development.

Current regional development policy aims to improve the quality of living for all residents of Kazakhstan, including those in large cities. However, the economic productivity of cities is higher than regions. An urbanization increase of 1% contributes to a 0.9% rise of the economic production. Astana and Almaty contribute 30% of the country's GDP and on 45% consist of the population that can be classified as middle class. The Forecast Scheme of Territorial and Spatial Development 2020 aims to concentrate economic and human resources in the key centers of urban growth. The Forecast Scheme had to serve as a strategic planning framework for the coordination of urban and regional development across the ministries, regional governments and other agents.

Figure 3. Contribution to national GDP growth by TL2 regions in Kazakhstan, 1998-2011



Source: Elaboration on data from the Agency for Statistics of the Republic of Kazakhstan (2017), Agency website, www.stat.gov.kz (accessed 15 January 2017).

The Regional Development Program 2020 is the implementation tool of the Forecast Scheme that was recently updated. The amended program includes the development of urban areas based on the OECD's suggested FUAs. The newly integrated indicators include measuring the gap in GDP per person between regions as well as the satisfaction of people with the quality of public services. Special attention is paid to the provision of centralized

water supply in urban and rural areas, including additional budgeting up to KZT 100 billion (KZT 83.7 billion from the national budget and KZT 16.3 billion from local budgets).

Strategy 2050 emphasizes the need for proper management of urban agglomerations to improve quality of living. New development of the Regional Development Program 2025 has started and will aim to switch to sustainable urbanization based on the 26 FUA. The program includes enhancement of the provision of basic public and social services in remote areas such as border territories, small towns and villages. The operational period of the state programs Nurly Zhol and Nurly Zher will be extended until 2025. Kazakhstan is keen to learn from Polish experience on how the Polish government is dealing with the establishment of National Urban Policy Framework.

The Importance of National Urban Policies - Evidence from Poland

Ms. Marta Bystrowska, a Chief Specialist in Urban Policy at the Department for Development Strategy of the Ministry of Investment and Development of Poland, provided country-specific insights into some achievements and challenges faced in implementing the OECD suggestions included in the Urban Policy Review. Poland was the first OECD country where, in 2011, the urban policy review was conducted. Poland, like Kazakhstan, continues to experience an impact of the Soviet legacy in urban planning. However, the public administration system is different in Poland as the sub-national level includes 16 independent regions with strong local governments. Local revenues are formed both from the collection of local taxes and national transfers that mainly go to education, health care and social services. The OECD identified urban development problems that also included affordable housing, poor transport system, insufficient infrastructure, decline of cities losing socio-economic functions (e.g. former mining cities), and a decreasing population in cities accompanied by urban sprawl. With the emphasized importance of switching to the FUA approach, the current polycentric structure of urban development in Poland was found to be a key strength.

The OECD Urban Policy Review 2011 served as an impetus to start working on the National Urban Policy 2023. National Strategy of Regional Development 2010-2020: Regions, Cities, Rural Areas and National Spatial Development Concept 2030 were the key strategic documents that the work on the national urban policy was based on. The National Urban Policy 2023 (NUP) approved in 2015, establishes the main country development vision and development objectives regarding the urban development. The NUP drives the focus from cities to FUA and promotes active public engagement in the planning of urban development. According to the NUP, all actors must strive to create a city that is efficient, compact, sustainable, coherent, competitive, and strong. Numerous good practices are supported through NUP, such as a participatory budget that allows people to vote for a development project that they want financed from the city budget.

One of the key conclusions from the OECD review for Poland was the role of functional urban areas (FUA) and, consequently, FUA approach is being applied in urban policy and planning in Poland where possible. The *Municipal Act* (1990) enables few forms of inter-municipal cooperation, such as municipal associations; and new legal forms of cooperation are proposed in the new *Municipal Act* (the act is currently being updated). A good example is the Silesian metropolitan area formed by 41 municipalities. It was established under dedicated legal act (Metropolitan Act, 2017) that gives this metropolis an extra income from the state budget in a form of 5% of income tax revenue, as an incentive for cooperation.

Box 1. Conclusions of the OECD Urban Policy Review of Poland

Key policy issues

- Despite Poland having developed a number of policy documents addressing urban development, the country has yet to articulate a coherent and integrated strategy for a national urban policy.
- Poland is facing a planning paradox: elaborate strategies, plans and visions for spatial development on paper with limited if any, impact on the ground.
- Three main challenges prevent a comprehensive approach to urban development at the national, regional and local levels. First, urban policy has not been assigned a specific set of priorities on the national level, in contrast to regional and rural policy. Second, no enforceable mechanisms exist to harmonise regional and local economic development or spatial development plans. Third, municipal economic development, spatial development and sectoral plans are not integrated, resulting in a fragmented approach to local development.

Main recommendations

- A national urban strategy is needed to set measurable objectives to achieve a vision for urban development across Poland and to improve coherence between national policies affecting urban development to pursue such a vision more effectively.
- An integrated cross-sectoral strategy can also help the national government identify policies that undermine urban policy objectives and complementary policy packages that would enhance effectiveness. It should also help differentiate policies by city according to size, specific needs, strengths and assets.
- National-level intervention is needed to assist municipal governments increase the supply of quality affordable housing. A top priority should be setting national-level affordable housing targets across municipalities that can be binding or supported by incentives.
- A long term strategy requires reforms to enhance inter-municipal planning and service delivery within functional urban areas, ensure integrated planning across sectors, strengthen inter-ministerial co-operation, co-ordination and coherence at central level, as well as revise the role of intermediate levels of government in optimising urban policy outcomes.

Source: OECD (2011), OECD Urban Policy Reviews, Poland 2011, OECD Urban Policy Reviews, OECD Publishing, Paris, <https://doi.org/10.1787/9789264097834-en>.

Besides, an opportunity to additionally support FUAs in Poland came from the European Union funds, where for years 2014-2020 5% of national allocation for the regional development fund should be spent on cities. Poland decided to design *Integrated Territorial Investment* tool dedicated to FUAs. As a result, 17 regional capitals' FUAs and 7 smaller FUAs were given financial support for joint projects provided the municipalities come up with a joint strategy and form a legal association. In that way, projects on e.g. low-emission public transportation, energy efficiency or regeneration could be funded. Total value of the

tool is EUR 3.8 billion. The financial incentive to foster FUA cooperation was challenging to implement at the beginning (e.g. considering little willingness of municipalities to start cooperation), but positive outcomes are already observed and the culture of cooperation has been slowly established.

In the first Regional Development Strategy 2010-2020, the emphasis was placed on the core urban centers that led to the development of regional capitals, whereas, other smaller urban areas remained in bad condition. Hence, in Poland, the government tests a new tactic to support development of smaller cities and towns, which proved not to benefit from development of core cities, as expected. The Strategy of Responsible Development (2017) sets a new development paradigm and focuses on supporting medium-sized cities, especially those losing economic functions (225 cities), as well as marginalized areas, including small towns. The Strategy includes numerous strategic projects that support urban development through dedicated European Union and state budget money. For example, a Package for Medium-Sized Cities is a project that finances economic transformation and innovations in medium-sized cities. Revitalization package is another project, where cities can obtain funds for urban regeneration initiatives. Cities can apply for funds in a competitive procedure, which is most popular for those projects.

The assumption was the competitive environment pushes town governments toward active actions. However, putting towns in competition is not always a good solution. As practice shows, many towns lack the capacity to create good development proposals.

In addition to national and local budgeting, since 2004, Poland has received European funds to support urban and regional development. Polish cities are benefiting from joining the network of self-learning cities called URBACT that was created and jointly financed by the European Union (European Regional Development Fund) and the Member States. The URBACT is a government supporting network for interactive dialogue between cities and governments wherein cities can recommend ideas for promoting sustainable urban development. The URBACT aims to enable cities to work together to develop solutions to major urban challenges, share good practices as well as lessons learned with all professionals involved in urban policy throughout Europe.

The Importance of City Contracts - evidence from France

Ms. Catherine Paquette, Researcher at the French National Research Institute for Sustainable Development, spoke about *City Contracts* as the concrete tool for implementation of urban policy in France. There are two main challenges related to the implementation of urban policy. The first challenge is how to articulate cross-sectorial policies because cities are complex systems. The second challenge is how to develop a national framework taking into account the diversity of cities and urban situations. Cities are different, and they can have different development trends and policies may have different impacts on them. Therefore, in France with 80% of the urban population, the government decision was to establish a contract-based relationship between local stakeholders in order to execute the national urban policy. The decentralization was implemented in France in 1982 and it was a main requisite for the successful introduction of *City Contracts*. With the decentralization process, the key responsibilities related to the planning and management of urban development were transferred from local administrations to local governments. Now, there are 36000 municipalities in France forming 27 regions and 4 levels of administration.

Box 2. Challenges in designing and implementing National Urban Policies in the age of sustainable development - the experience of France

How to articulate sectoral policies and to create transversality?

- Cities are complex systems
- Sustainable development also works as a system that integrates economic, social, environmental, and governance issues.
- Urban Policy concerns many sectoral public policies (e.g. transportation, housing, infrastructure, employment, culture, education...)

How to develop a national framework of urban policy in order to set the overall direction, while responding simultaneously to the diversity of needs and issues of urban territories?

- Global trends are substantially changing urban territories but do not have the same impacts across territories, even within a single country and even within a single city.
- Urban Policy concerns many sectoral public policies (e.g. transportation, housing, infrastructure, employment, culture, education...)
- Kazakhstan faces diversified urban issues including: monotowns, small and large cities, housing, air quality, access to basic services, and the creation of networks of cities.

Source: Paquette, Catherine (2018) Implementing National Urban Policy through a contract-based relation with local stakeholders: The experience of France and its “City Contracts” (2015-2020), Presentation delivered during the Implementation Dialogue Seminar on Urban Policy in Kazakhstan - Astana, Ministry of National Economy - December 6 2018.

For many years, in France, urban policies were targeting specific territories that had difficulties reducing the gap between areas experiencing development crisis and other territories. Declining city centres and poor urban neighbourhoods remain to be in the policy focus, whereas, planners deal not only with the built environment but with social issues too. Since the 1990s, there were many programs that aimed to fix the problems of those territories such as the National Renewable Plan. In 2014, a new law introduced a single framework for cities called *City Contracts* (2015-2020). *City Contracts* promote a comprehensive approach to improve disadvantaged territories based on three development pillars: environmental, economic and social issues. The balanced development must be achieved based on a signed contract between national and local stakeholders for 6 years.

City Contracts is a unique tool, bringing together different stakeholders. All public stakeholders and institutions and also civil society and private stakeholders agree on all development interventions included in the *City Contracts*. The stakeholders must agree on actions and responsibilities as well as resources that can be committed and by whom. *City Contracts* establish obligatory public engagement. Territorial planning documents must integrate conditions and principles established by *City Contracts*. *City Contracts* are useful for addressing inter-municipal issues of local development when municipalities must act together. For example, a document for the decreasing city of Saint-Etienne was developed and signed by 53 mayors, national and regional governments, social subsidy distributing agency, chief educational policymakers, and so on.

The national government is responsible for guidance and supervision at the national level to assure that each stakeholder contributes what they committed. The national government monitors the implementation of signed contracts based on many indicators. There is an observatory specifically created to keep track of the changes and publishes annual reports of the recent achievements. All stakeholders are interested in studying these reports and see the progress. The *City Contracts* tool that was introduced after 50 years of the enacted regional development policy that aimed to establish balanced territorial development. Regional development policy helped link all regions of France by highways.

Box 3. Key Messages from the Discussion

Urban policy is a course of actions by a government and other relevant institutions responsible for planning and managing urban development, ultimately working towards the sustainable economic development of cities. Urban policy can be addressed in the special state strategies and programs or integrated under the umbrella of the national urban policy framework. For example, in the case of Poland, the government developed the National Urban Policy 2023. However, policies should not be treated as projects as urban policy often is not limited to the production of a single state document. Urban policy brings together a wide range of systematic institutional changes including cross-sectorial and intergovernmental dialogue, adjustment of legislation, public management and fiscal system.

Urban policy should enable cities to develop location-specific urban development strategies. It is important to delegate cities with opportunities and capacities to lead urban development. There is no uniform solution for Kazakhstani cities to develop because the country and its cities are in a constant transition. For example, an opening of the formerly closed country like Uzbekistan creates new urban dynamics around Shymkent city located close to the larger agglomeration of Tashkent. Regions should be also able to gain from agglomeration advantages such as the development of value-chain in competitive sectors, for example.

There is a need for adequate linkage between regional development policy and urban policy to create development opportunities for both cities and small towns. The constant support of remote and declining towns through targeted national subsidies may not help if there is no policy space created for local actors to engage in urban development. Direct national level financial support can allow town governments to worry less about revenue generation and increasing the share of locally collected taxes. Moreover, this kind of dependency of towns on national transfers also creates certain obstacles for cooperation between municipalities within FUA.

The government should invest in data collection and continuous assessment of the former policy's impact before experimenting with new urban development tools. It is important to measure the effect of any type of policy intervention. As OECD countries' experiences show, the efficiency of policy interventions directly depends on the presence of an adequate institutional environment. In the case of French City Contracts, implementation of regional development policy and decentralization reforms served as a key precondition. In Poland, the presence of strong self-government institutions allowed engagement of local actors in co-planning and co-implementation of urban development via Municipal Acts and Integrated Territorial Investment tools.

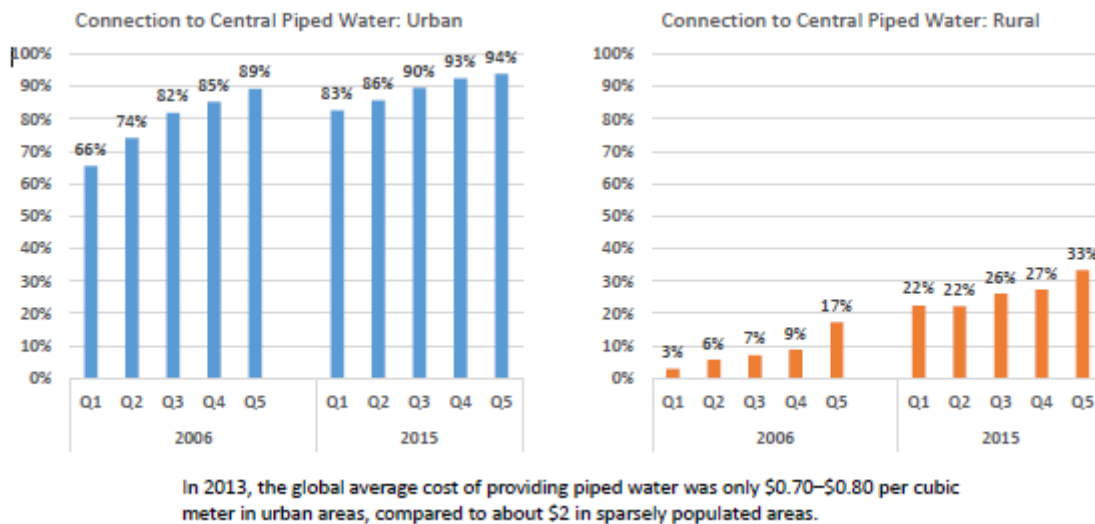
Session 2: Addressing the Housing Affordability Challenge

Presentation of the Main Conclusions from the World Bank Report

Mr. William Seitz, an Economist in the Poverty and Equity Global Practice of the World Bank, presented the outcomes of the study *Urbanization in Kazakhstan: Desirable Cities, Unaffordable Housing, and the Missing Rental Market*. Urbanization is one of the pillars of the Kazakhstan 2050 strategy and the government wants to increase it up to 70%. However, the UN predicts that by 2050 the share of the urban population will be about 65% only.

Urbanization drives higher living standards. It is easier and more cost effective to provide services in urban areas. For example, in Kazakhstan, the connection to centrally piped water in urban areas improved from 66% in 2006 to 83% in 2015 compared to from 3% in 2006 to 22% in 2015 in rural areas. In 2013, the global average cost of providing piped water was only USD 0.70-0.80 per cubic meter in urban areas, compared to about USD 2 in sparsely populated areas. Kazakhstan's cities are hubs of economic development and are attractive internal migrants from other regions of the country, and rural to urban migration is strongly associated with improving living standards because urban areas feature higher-paying jobs, the greater diversity of economic activities and substantially higher average productivity.

Figure 4. It is easier and more cost effective to provide services in urban areas

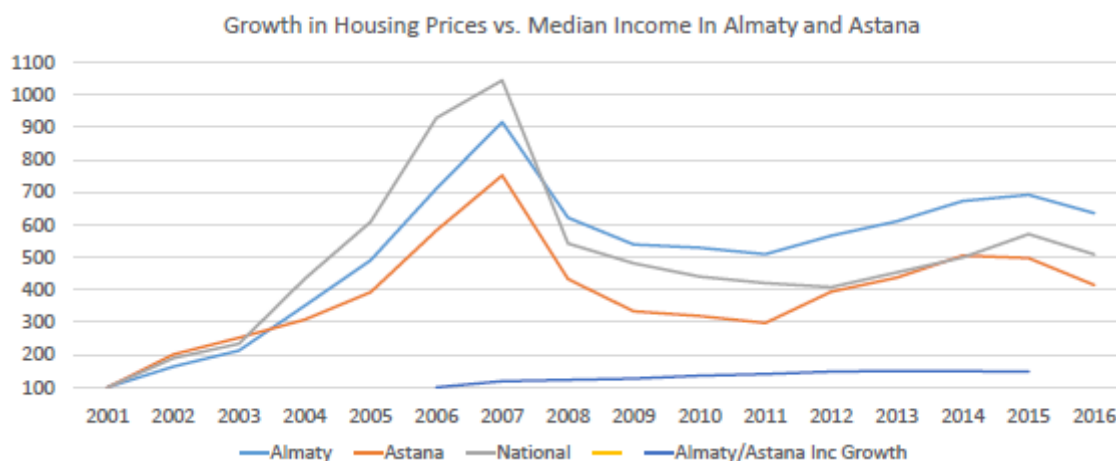


Source: Seitz, William (2018) "Desirable Cities, Unaffordable Housing, and the Missing Rental Market" Presentation delivered during the Implementation Dialogue on Urban Policy in Kazakhstan - Astana, Ministry of National Economy - December 6 2018.

But most cannot afford to move to big cities, and as a result the rates of internal migration in Kazakhstan are very low. Housing prices have easily outpaced income growth. On average, the cost of housing consumed is 310% higher than the national average in the city

of Almaty, and about 460% higher in Astana. Housing is unaffordable for over 60% people in Almaty and Astana cities (who allocate more than 30 percent of their budget to housing).

Figure 5. Housing prices are fast-growing, volatile, and have outpaced income growth



Source: Seitz, William (2018) “Desirable Cities, Unaffordable Housing, and the Missing Rental Market” Presentation delivered during the Implementation Dialogue on Urban Policy in Kazakhstan - Astana, Ministry of National Economy - December 6 2018.

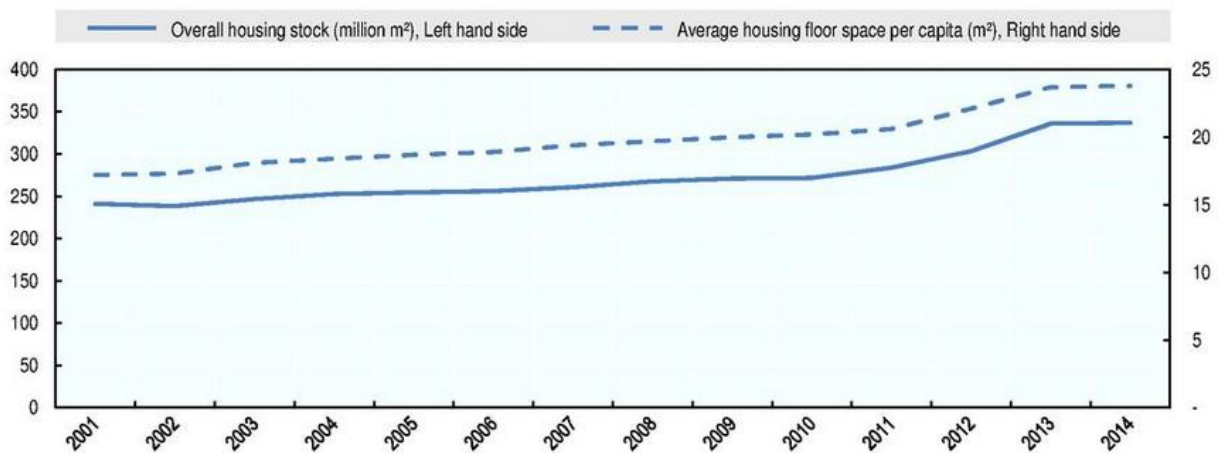
Moving from rural to urban areas is unrealistic for most people if a house or flat must be purchased, rather than rented. Kazakhstan has one of the highest homeownership rates in the world (more than 90%). High homeownership leads to slow adjustment to economic shocks (difficult to sell and move in the event of a local downturn), lower mobility, and higher unemployment. Internal mobility is important for taking advantage of more dynamic labour markets. Potential newcomers usually cannot afford to purchase a house, or meet the criteria needed to rent a house, and that slows down urbanization and mobility.

Evidence from Kazakhstan’s Local Governments

Mr. Kanat Ibraev, Chairman of the Housing Security Fund, made a speech about the affordable housing policy in Kazakhstan. The national programs for the development of housing construction in the Republic of Kazakhstan for 2005–2007, 2008–2010, and 2011–2014 and the program for the development of the construction industry and the production of building materials for 2010–2014 were successfully implemented. Since 2016, the Nurly Zhol program has accelerated the construction of credit housing through the mechanism of funds turnover (every 2 years) by issuing securities by local executive bodies (*Akimats*) and ensuring their redemption by Baiterek Development JSC. Baiterek Development JSC is the national operator of financing housing construction for people in waiting lists, registered by the *Akimats*, and depositors of the Housing Construction Savings Bank of Kazakhstan (ZHSSBK). Private developers obtained an opportunity to construct commercial housing on the principles of public-private partnership with the National Welfare Fund Samruk-Kazyna JSC. *Akimats* are responsible for the construction of communal and engineering infrastructure lines to supply new housing development with public utility services. Funds have been allocated for the construction of approximately 9 thousand kilometres of electricity, gas, heat and water supply pipelines. Approximately 179 thousand land plots were provided with engineering and communal infrastructure.

In Kazakhstan, the demand for housing outweighs the current supply of housing. As a result of the government support, the annual volume of housing construction exceeded 11 million square meters of housing by 2018. As of December 1, 2018, the number of people in need of housing reached 2.5 million people. With a projected population of 20.7 million people, it is necessary to increase the annual volume of housing construction to 30 million square meters by 2031. Since 2005, the volume of housing provided by the government of Kazakhstan has increased by 20% and amounted to 21.4 square meters per person in 2017. However, according to the UN standards for good quality of life, there should be 30 square meters of housing per person. For comparison, the volume of available housing in Russia is 23.4 sq.m per person, in Poland 25 sq.m, in China 32 sq.m, in Germany 39 sq.m, and in the USA 69.7 sq.m.

Figure 6. Housing Stock in Kazakhstan (2001-2015)



Source: OECD (2017), OECD Urban Policy Reviews: Kazakhstan, OECD Urban Policy Reviews, OECD Publishing, Paris, <https://doi.org/10.1787/9789264268852-en>.

To improve housing affordability, the government introduced a new mortgage program called 7-20-25. The program 7-20-25 provides loan with a low-interest rate of 7%, an initial payment of only 20% of the total housing cost, and a repayment periods of up to 25 years. A person who does not own an apartment is eligible to choose an apartment from the market and can apply for the 7-20-25 program. However, there is a limitation in terms of the maximum cost of the apartment. For example, in Astana, the amount of initial contribution that makes 20% of the housing cost should not exceed KZT 20 million. According to the National Bank data, 3,272 applications for the provision of a loan in the amount of KZT 39.3 billion have been approved. That means more than 3 thousand Kazakhstani families will get their apartments soon.

Mr. Nurlan Amankhulov, Head of Energy and Housing and Communal Services of the Shymkent city administration. The Shymkent city *Akimat* is responsible for implementing state programs at the local level. The demand to have personal house ownership is growing. People in Kazakhstan prefer to own a house due to its capital value. Many people use their housing as an allotment for taking a loan from a bank. The government introduced special conditions for private developers to participate in social housing development. The government subsidizes loans for housing construction as well as provides land for housing development. In Shymkent, *Akimat* initiated the Shymkent City project through which land supplied by public utilities is provided free of charge for developers who want to build social housing.

Singapore's Approach towards Housing Affordability

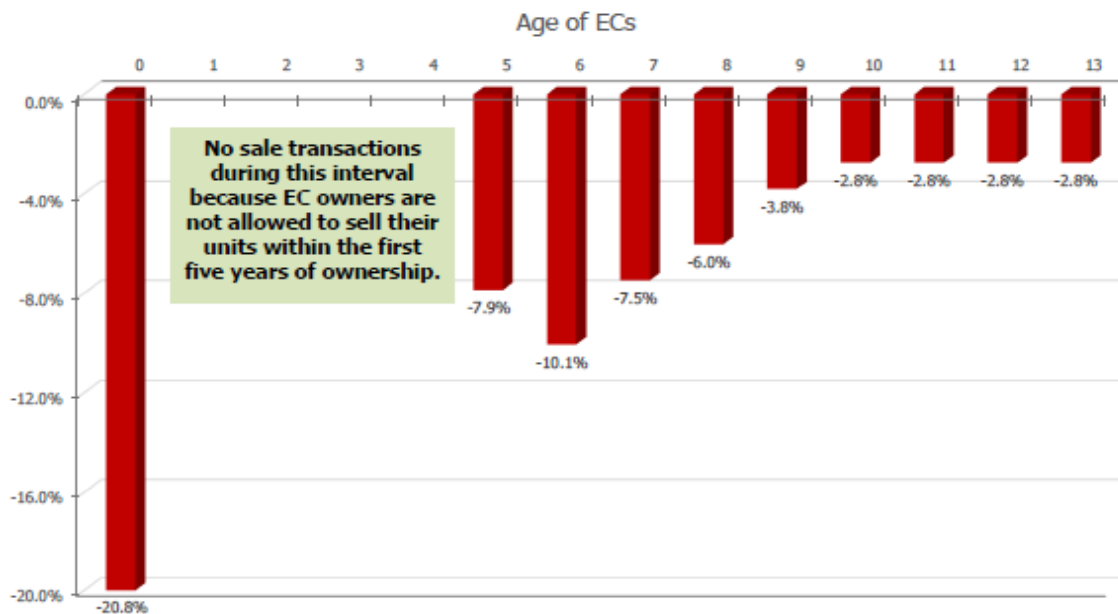
Ms. Kwan Ok Lee, an Associate Professor in the Department of Real Estate at the National University of Singapore, shared the results of the study on Property Right Restriction and House Prices. The Housing and Development Board (HDB) represents a statutory governmental institution responsible for the development of public housing in Singapore. Most of the public housing is represented by high rise buildings. The government of Singapore heavily subsidizes public housing and 80% of residents are living in public housing. All families with a total income of less than USD 10,000 can apply to public housing. However, for middle-income citizens of Singapore, whose familial total income exceeds USD 10,000, housing remained expensive. Therefore, in 1995, HDB introduced Executive Condos (EC) to address housing affordability for this so-called *sandwich class*.

EC are regular condominiums with swimming pools developed by the private sector. The cost of development is decreased by lower land prices provided by the government. The government owns 45% of land in Singapore and some of these lands are released for public housing. Private players bidding for land parcels provided for public housing know that they can develop only EC. According to the eligibility criteria, a family applying for an EC should not own another apartment and gross income should not be higher than USD 12,000. A single person can apply for public housing only when he/she is over 35 years old. The government introduced a unique financial mechanism allowing the use of pension funds to pay for the property. To avoid any manipulations in the market, EC introduce certain property right restrictions. An owner cannot sell EC in the open market before the minimum occupation period of 5 years from the completion is over. An owner cannot rent EC apartment out before the minimum occupation period of 5 years from the completion is over. However, an owner can rent out a bedroom within the 5 years of the minimum occupation period. According to the resale restrictions, an owner can sell EC apartment only to Singaporean citizens and permanent residents after the 5 years of occupancy. An owner can sell EC apartment to anyone including foreigners after 10 years of occupancy.

The study aimed to find out what the economic impact of placing temporary restrictions on the owners' rights to rent and sell his or her property would be. In addition, these were more questions that were explored: To what extent would temporary, complete illiquidity reduce housing prices? To what extent would a temporary binding constraint on foreigners' ownership reduce housing prices? When the restriction is removed, do housing prices converge back? The research employed a quasi-experimental approach by matching EC transacted during 1996 and 2016 with comparable private condominiums within a 2 km distance from EC.

The research findings show that there is a significant impact from restricting the right to transfer on property values. EC buyers enjoy not only living in higher quality residential units but also high price appreciation. The initial price of EC are 20% lower than other private properties. After 5 years of the minimum occupation period, the difference in price between EC and private condominiums is lowering. In 10 years, public housing price will converge and become the same price as other housing. Because of the temporary restriction on transferability of property rights, EC obtain about 18% initial price discount compared to similar homes without restrictions (about USD 152,158 per unit). Because of the temporary binding constraint on foreigners' ownership, there is about 5% price reduction for 5 years after the 5th year. After the removal of all restrictions, the remaining price gap is about 3%. The research results show that suppressing foreign investment may help enhance housing affordability. However, the problem of long-term sustainability of affordability remains difficult to solve.

Figure 7. Projected Price Gap between ECs and Matched Private Condominiums



Source: Ok Lee, Kwan (2018). "Property Right Restriction and House Prices" Presentation delivered during the Implementation Dialogue on Urban Policy in Kazakhstan - Astana, Ministry of National Economy - December 6 2018.

Box 4. Key Messages from the Discussion

Cities are the engines of Kazakhstan's future economic growth, but in order to unlock the potential benefits of internal mobility they require affordable housing. The country has one of the highest homeownership rates on earth, and lacks a dynamic and affordable rental market. This creates to labour market inefficiencies by preventing migrants from accessing the economic prosperity offered in cities.

The national government has implemented several ambitious programs aimed at tackling the country's housing shortage. In order to boost housing supply, Kazakhstan offers private developers subsidized credit and facilitated access to low cost public utilities that incentivize the growth of the urban housing stock. The government also seeks to manage housing demand by offering citizens preferential loans through its 7-20-25 program.

Singapore offers an interesting example of how the public sector can develop an affordable housing market through public and private collaboration. Public housing is the primary place of residency for 80% of Singaporeans. However, recently the government has worked to address housing affordability for middle class residents that do not qualify for public housing, by creating subsidized executive condominiums. Research indicates that restrictions of the transfer of property rights for executive condominiums during the first 5 years of ownership leads to improved housing affordability.

Session 3: Enhancing Land Use Planning for Better Quality Urbanisation

Evidence from Amsterdam's Experience

Ms. Dagmar Keim, a strategic advisor at the Amsterdam department of urban planning and sustainability, shared Amsterdam's experience in governance of land use. Amsterdam is not a large city, inhabiting 860,000 residents only. However, it is ranked number 6 among 10 top cities according to the Global Power Index. Amsterdam takes 2nd place as one of the most liveable cities in the world. The Amsterdam approach to development lays on 3 success factors: culture, mentality, and tradition. Due to its location by a river delta below sea level, there is a constant need to prevent the living areas from flooding. This kind of external force pushes Dutch people to work together to survive and lead to the establishment of a cooperative working culture. From its origin, the Netherlands has been a trading nation with strong entrepreneurial values, and Amsterdam's residents are particularly free spirited because their city used to be an independent republic. The presence of pragmatic and activist mentality in the city attracts young and creative people from different parts of the world to relocate there.

There is a long-rooted tradition of planning with the planning department existing since 1956 and 22% of the municipal budget going to physical planning. The planning department consists of 550 employees, including 100 urban designers, 50 landscape architects, 75 physical planners/researchers, 50 traffic designers, 25 ecologists, 50 legal experts, 50 draftsmen, and 25 data experts. The city's administrative body has a clear structure and is closely connected to the local politicians. There is transparent, step by step process of planning and the planning department sets an agenda. Each step of the process leads to separate decision outcomes by the city council. The first step, research, leads to the decision to start an investigation. Then the feasibility step is leading to the decision to start a project. At the designing step, the decision is made related to investments. With the last step, engineering, the decision is taken on to start new construction or continue to maintain the existing environment.

The city development plans are directly linked with an investment program approved by the city council. This creates a clear vision, informing developers about key directions of the city's development. Planning is carried out by multidisciplinary teams. Planning integrates long-term regional planning with short-term city districts development, taking into account urbanization, mobility, economy, sustainability, and water management. The Amsterdam city government owns 80% of the land and it is tendered to different users based on a lease agreement. The revenue generated from land lease makes over € 5.5 billion of Amsterdam's city budget. Social housing is one of the key parts of a high-quality development plan and a tool to form liveable communities where people meet, interact, and create. In 2012, Amsterdam adopted a new structural vision through inspiration, participation and dialogue with citizens. It was an intensive exercise involving hundreds of people and including an international conference to gather some outside inspiration. Open websites and social media groups were created to get citizens' insights into city development goals. The 'Free State of Amsterdam' was a key event that included 26 evenings of debate and an exhibition of 12 sites of Amsterdam.

Consequently, the Amsterdam 2040 development vision was defined around 6 main spatial tasks: densify, transform, develop public transport on a regional scale, provide a high-quality layout of public space, invest in the recreational use of green space and water, and

convert to sustainable energy. However, before starting a new process of planning, the OECD was consulted for advice on how Amsterdam should deal with the transition from manufacturing to knowledge industries within the framework of a circular economy. They asked questions such as these: How could they enjoy agglomeration benefits and tackle the issue of long travel times at the same time? How could they enhance the accessibility of the housing market, and improve governance on a regional scale? The cooperation with the OECD led to the national government actions such as doing research to find better steering instruments for spatial development aiming to eliminate the current conflict between decentralized spatial planning and nationally organized finances. The long-term vision of the Metropolitan area of Amsterdam has started to be formed for enhancing governance of the metropolitan region.

Evidence from Prague's Experience

Mr. Jaromir Hainc, the Director of the Urban Design Section at the Prague Institute of Planning and Development, presented the governance of land use in Prague. Prague is an old city, preserving its territorial borders since 1976. Having 1.3 million residents, annually Prague accepts 8 million visitors. Prague is rich in heritage and historical sites protected by UNESCO and planners pay great attention to urban regeneration projects. However, to get building permission takes a long time. City planning is carried out by the Prague Institute of Planning and Development, which is an independent institution from any municipal government. The Prague Institute works with the municipalities, politicians and residents by providing an expert view on city development. There are 250 employees and a department exclusively responsible for public participation. The department focuses on informing people about land use issues. There is an exhibition area with the city model where visitors such as residents and developers can get familiar with planned developments. A special café is operating near the exhibition area to attract people to come and learn about city development issues.

The OECD study (2014-2018) on land use governance focused on administrative fragmentation, unsustainable development beyond the city borders, complicated relations among different stakeholders, and a high level of regulation. Prague is represented by 57 municipalities, each having its own mayor, own budget. There are 22 building authorities and only a single institution responsible for planning. Prague stands as the tenth most fragmented FUA in the OECD, with approximately 23 municipalities per 100 000 inhabitants. Prague is experiencing rapid peri-urban growth. During 2000-2012, developed land across Prague's FUA increased by 0.7% per year. The highest increase in developed land took place in Prague's commuting zone, which grew by 1.03% per annum over this period. This is almost twice the European average for the same period (0.52% per annum).

The OECD recommended adopting a collaborative approach in managing development with proximate municipalities and Central Bohemia. There should be incentives in place to encourage ongoing partnership. Properly structured, property taxes can act as a land value-capture tool – an instrument that has great potential and is not presently being used in Prague. The city's strategic plan should be the guiding document for investment for both the city and its boroughs. It was suggested to enhance the public engagement function and review appeals regulations. There is a need to establish clear guidelines for the negotiations between developers and planning authorities, as well as reduce the regulatory burden facing developers in the building approvals process. For both Prague and its functional urban area, it is important to enhance the monitoring and evaluation of spatial trends.

Box 5. The Governance of Land Use in the Czech Republic: The Case of Prague

Key Policy Issues

- The central city of Prague faces many pressures for land use and development
- Prague is experiencing rapid peri-urban growth
- The shift from a communist regime towards a market democracy has presented a challenging environment for land-use planning
- The city's new strategic plan and soon-to-be adopted land-use plan are grounded in compact development and urbanism principles

Key Recommendations

- Fiscal incentives and/or regulatory frameworks should be established by the national government in order to encourage metropolitan spatial planning
- Use fiscal tools and incentives to complement spatial development objectives
- Improve integrated spatial planning by aligning sectoral and borough-level plans with the strategic plan
- Establish clear guidelines for the negotiations between developers and planning authorities
- Improve the relationship between residents, developers and local governments
- Reduce the regulatory burden facing developers in the building approvals process
- Enhance the monitoring and evaluation of spatial trends – for both Prague and its FUA

Source: OECD (2017), The Governance of Land Use in the Czech Republic: The Case of Prague, OECD Publishing, Paris, <https://doi.org/10.1787/9789264281936-en>.

Local Land Use Planning in Kazakhstan – the Example of Astana

Mr. Ansur Abayev, a specialist from the Land Use Department of Astana city, spoke about current land allocation for new developments in Astana. The Astana city *Akimat* provides land for private developers only through open tenders. The bidding for a land plot starts with the publication of information about the availability of land with an indication of its area, purpose, starting price, the number of allowed storeys, and annual rent fee. Information on the availability of engineering networks and technical conditions is also provided. With the help of an interactive map, any developer can get information on all land plots available in the city. The *Akimat* is responsible for explaining the bidding procedure to the public. To participate in the auction requires a minimum set of documents such as an application and a payment document. It takes four to five days in total to purchase land. On the first day, a protocol is drawn up; two days are given to register for the right to land use, and another 2 days to conclude a contract of sale. This type of open bidding has been held since 2015. In the period from 2015-2018, the *Akimat* conducted 33 auctions, 183 land plots were sold, and the city budget received KZT 1.6 billion.

Box 6. Key Messages from the Discussion

People should be able to move to any location if they get a job there and be sure that they can find affordable housing to rent. The OECD countries with developed rental housing markets such as the one in Germany have high labour mobility and lower unemployment rate. Compulsory registration is one of the obstacles to human mobility. In the event that a person has to move from one place to another, he/she is only given 10 days to register at said new place. People face a high penalty if they are not timely registered, but not all landlords are willing to register their tenants. There are different ways to develop the formal rental market. The exemption from taxes for 10 years can be used by the government to encourage landlords to register their housing as rental units. In France, after the Second World War, the government provided social housing to rent and tenants received a subsidy to cover part of their rental expenses. However, such subsidy can lead to an increase in the price for rent from landlords' side. Therefore, there is a need for a regulation that does not allow landlords to speculate and protect both tenants' and landlords' rights in Kazakhstan.

To make cities and housing affordable, it is important to promote compact development. Land use should be transparent and open to public and private actors' participation in urban development. Long-term sustainability requires reservation of land for future urban developments. It is not sustainable to sell all urban land to private developers. For example, in Amsterdam and Singapore, private developers are encouraged to build social housing by lowering the price of the land. In Amsterdam, it is mandatory for every new housing development to include 40-45% of social housing. It is important to consider the effect of the transport system on housing and other new developments. Construction of highways leads to the development of suburbs. Construction of a new transport hub results in an increase of housing cost located in its vicinity.

Cities should be able to elaborate their own development rules and the city councils should be given a chance to play crucial role in planning and management of urban development. In Astana, there is a public council and practice of public discussion of some important development projects. However, there is no clear mechanism to further integrate public concerns and feedback into the planning process. In Amsterdam, planners practice a demand-driven approach and consult with public councils on how and where to develop new social housing. People vote for their district representatives who take part in public discussions. Next year, with the introduction of a new law, planners need to co-produce any development projects with citizens. As the Prague case shows, there is a need to prepare people for meaningful engagement. Planners should play the role of mediators in this discussion.

Key Findings of the Group Work: Promoting Better Urban Policies in Kazakhstan

There is a need to improve coordination, consistency, and policy coherence in development actions taken by national government. The national government must be consistent in the provision of funding opportunities. For example, according to the state program Nurly Zhol, municipal utility companies could get loans for reconstruction of public utility networks. However, starting January 2019, the national government wants to decrease tariffs for utility services as well as limit national transfers aiming the development of infrastructure. If tariffs become lower, then municipal companies will deal with problems related to paying the loan back sooner. Also, the public utility companies serving rural areas that could not get access to loans for reconstruction will not get financial support due to the shortage of national transfers. The decrease of the national transfers for development of heating supply does not correspond well with the government's plans to increase the volume of housing.

More effective instruments need to be put in place to co-ordinate policies at the metropolitan level. For example, there is poor coordination of planning of infrastructure development. The water provision to rural areas is supervised by two ministries that do not coordinate the process of water pipe development with other ministries. The Ministry of Agriculture (MA) is responsible for the development of group water supply systems in rural areas but does not communicate their development plans with the Ministry for Investment and Development (MID) responsible for local water pipes in urban areas. The Ministry of Transport develops road network without considering the plans of water provision by the MA and the MID. Local actors do not have the autonomy or funds to decide where and how to implement infrastructure projects. As a result, city and regional governments must deal with several local challenges related to the timely provision of the infrastructure that often fails to go before any planned developments such as housing.

Balanced development requires strengthening the role of local actors and strategic national support covering both urban and rural areas. In terms of territorial focus, cities and villages located in border territories should be given priority for provision of better infrastructure. The role and support for cities as regional centres should be strengthened, and included in National Urban Policies. National urban policy should recognize the role of those regional centres and strengthen them to provide more geographically even urban development. Residents of villages and even cities such as Petropavl bordering Russia are moving to Russian cities such as Omsk and Chelyabinsk or to Kazakhstani cities such as Astana, Almaty, Atyrau and Aktau. There is an aging population in villages as young people are leaving rural areas because they are looking for jobs and better conditions of living. The artificial resettlement of people from southern to northern regions was started by the national government as temporary solution. There is a need for stronger economic motives for people to go back to these shrinking urban and rural areas.

Local government should be better incentivized to find location-specific development advantages of cities and capitalize them. Decentralisation is a precondition of the successful urban policy reforms, but it is a complex process requiring time, resources, and clear strategy. Not all regions can generate enough local revenue to self-pay for urban development related expenses such as oil and gas rich Mangystau and West-Kazakhstan

regions of Kazakhstan. Therefore, decentralization should be strategic and well-planned. New responsibilities should come with adequate financial resources and capacity building.

Land is a valuable local asset and it is important to promote compact development and reserve land for future use. Poor land use practice with unplanned and non-transparent allocation of land for development often results in an increase of speculation in land and housing markets. Now all city governments are working on the creation of an electronic GIS portal that will be used for the demonstration of current land use and free land plots available for sale through public auction. Public authorities, entrepreneurs and citizens will get open access to city development plans, too. However, the availability of the land use portal alone cannot ensure that there are no land use or housing speculations. As international practice shows, the speculation can be avoided by collecting a tax on land that is sold, by establishing time limits for selling, and by taking back the land if it is not properly used. In Amsterdam, developers must pay high fines if they do not develop a land plot within 2 years after purchase. In Singapore, to avoid speculation, the developers must sell all houses within 2 years after the completion of construction. If a person who received social housing wants to sell it within a short period of time, then he must pay 10% of the property cost as the selling tax.

Fiscal decentralization and delegation of policymaking related to urban development is important. Local governments should have full control over land-use on their sub-ordinated territories to encourage them to promote compact development and limit urban sprawl. Local governments should get access to regulate the process of infrastructure development and preparation of the land plots for developers. Selling of all available land plots to market actors to increase local revenue is not a sustainable solution in the long run. Local government should have a certain taxation power to be interested to reserve land for future development of urban infrastructure in the city development plan. The reservation of land owned by the government inside urban areas can allow benefiting from value capture when the land price increases. This reserved land can be given to the private sector for rent. However, as the Amsterdam case shows, the introduction of the land lease may lead to a decrease in property cost and public opposition. Nevertheless, the availability of government land inside the city is an asset that can be used for attracting developers to build affordable housing.

There is a need to switch from an affordable housing building to an affordable city building model. Despite a great deal of government support, housing remains unaffordable for the majority of the population. It is hard for city governments to reserve public land for allocation of housing in city districts with developed transport systems and public infrastructure. In many cases, housing appears in the suburbs and municipalities need to supply new residential areas with public utility networks. Housing policy needs to be better connected to infrastructure investment and urban planning. The centrally constrained system of public tenders for construction of housing does not always work well. There is a need for legislative changes that allow local actors to adjust local development rules, construction norms, and the taxation system.

The government's direct participation in the construction of housing should be minimized. The government should not increase square meters of new housing but rather set favourable conditions for development of housing, rental, and labour markets, supplying an adequate volume of demanded living places. The Amsterdam experience of the compulsory inclusion of 40% of social housing in every new commercial housing spot is useful. It is socially just when there is no difference between social and commercial housing. However, when the government subsidizes housing for some people and others must work hard to get the same

quality apartment, it may lead to public dissatisfaction. The Singapore example of using pension funds to decrease the cost of housing can be implemented in Kazakhstani cities. Linking housing policy with labour policy can help encourage people to work because they must pay a mortgage.

There is a need for local dialogue and engagement of all relevant stakeholders in integrated urban development. It is important to switch to responsible development actions on local levels that can be done based on the common agreement on how to develop a city. *Akimat* cannot be a single actor responsible for planning, management and investment in urban development. The French tool called *City Contracts* can be adjusted for engagement of other relevant actors to elaborate a common vision and participate in a city development. All stakeholders should come together to consider all internal and external factors such as the change of oil price and develop different scenarios. For example, all stakeholders can sign a collective contract with the objective to achieve integrated urban development allowing a decrease in the cost of housing.

Public engagement can add value in the planning of urban development and the creation of a responsible society. Amsterdam has a good history of public engagement in the planning of urban development. However, the situation with civil society readiness to participate is different in Kazakhstan. Public participation requires preparation of civil society. Public engagement should be well-managed. There is a need for clear step-by-step guidelines for effective public participation. It all depends on what the city's long-term development objectives are and what goals they want to reach in terms of urban development. It is important not to copy-paste any international practice and remember that there are always advantages and disadvantages related to any intervention.

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